HOUSING MARKET OUTLOOK
Kelowna CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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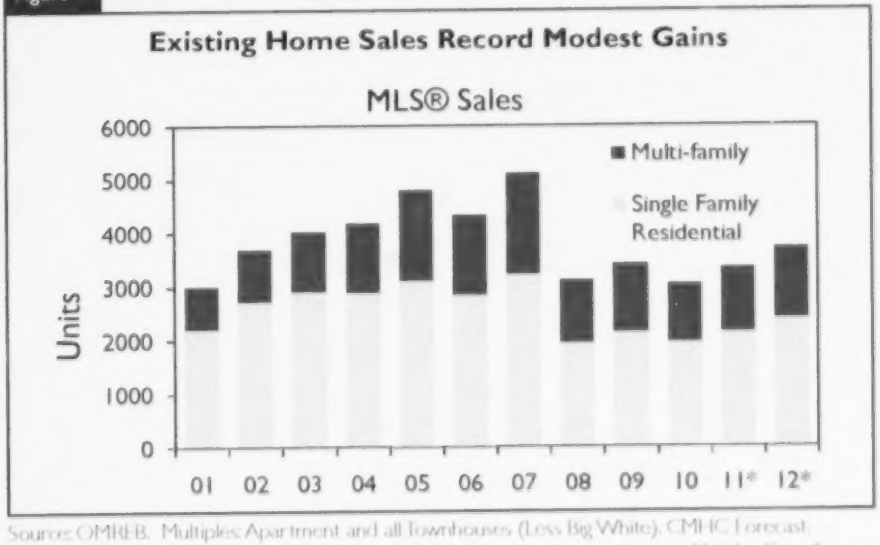
Kelowna Highlights[1]

- Demand for new and existing homes is forecast to pickup in 2011. Stronger employment growth will boost demand through 2012.
- Sales of existing homes are expected to increase this year, supported by favourable interest rates, strong price competition among sellers and an ample supply of listings available for sale.
- Expect existing home prices to edge up by three per cent as demand improves and the supply of listings is drawn down.
- Kelowna area housing starts are projected move higher this year with a forecast of 1,025 units which represents a seven per cent increase from 2010 levels. Both detached home and multi-family construction is forecast to strengthen in 2012.

Figure 1

Existing Home Sales Record Modest Gains



Source: OMREB. Multiples: Apartment and all Townhouses (Less Big White). CMHC Forecast.
MLS® Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association. *CMHC Forecast.

[1] *The forecasts included in this document are based on information available as of April 28, 2011.*

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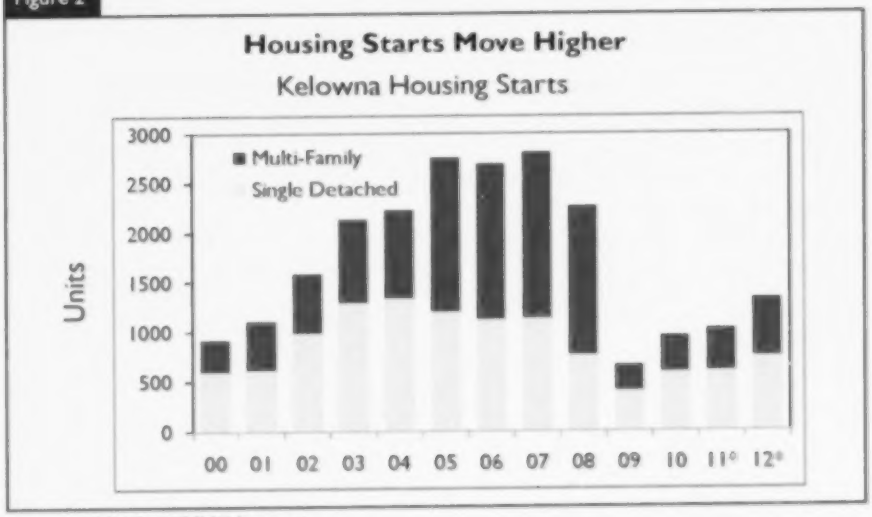
Existing Home Sales Move Higher in 2011 and 2012

Sales of existing homes are forecast to move higher in 2011 and 2012. Favourable interest rates combined with strong price competition will support modest growth in demand for existing homes this year. Kelowna's existing home market began 2011 on a slower note with inclement spring weather conditions contributing to fewer first quarter sales than a year ago. Pent-up demand among first-time buyers, a key factor underlying the upswing in sales recorded in 2009 and earlier last year, was largely satisfied by mid 2010. Despite expectations of slightly higher interest rates during the next two years, stronger employment growth will boost demand for existing homes in 2012.

Figure 2



Source: CMHC, *CMHC Forecast.

Home buyers will continue to benefit from an ample supply of listings and strong price competition in the market in 2011. The supply of detached homes listed for sale has remained at high levels. Apartment condominium listings have come down from a year ago. The decline reflects reduced listing activity rather than an increase in sales. Kelowna's existing home market will move to a balanced market position in 2011 as demand improves and the supply of listings slowly comes down. Moderating demand in combination with abundant supply kept the Kelowna area existing home market in borderline buyers/ balanced territory last year.

Existing home prices are forecast to edge up this year and next. An ample supply of listings in combination with modest growth in demand will temper upward pressure on prices. Detached home prices stabilized by mid 2009 after trending down since the previous spring. The average detached home price moved higher in 2010, but much of the increase is attributed to shifts in the price distribution of sales (more sales of mid and higher priced homes in 2010 than in 2009) rather than true price appreciation.

Demand has broadened to include more move-up home buyers this year. While sales of mid and higher-priced homes have risen, the focus of demand among home buyers remains moderately priced homes. Single family homes (detached and semi-detached units) priced at less than $400,000 accounted for 35 and 40 per cent of sales in 2010 and 2009, respectively, compared to only 24 per cent in 2008. Home buyer preferences have remained essentially unchanged during the first quarter of 2011.

The proportion of single family residential sales edged higher in 2009 and 2010, reversing an eight year trend during which attached homes and apartment condominiums represented a steadily increasing share of total existing home sales. The share of single family residential homes sales fell to 61.3 per cent of total home sales by 2008 from 71.7 per cent in 2002. With the price of detached homes increasing sharply during this period, more buyers turned to higher density housing. Strong growth in demand for resort housing and second residences also contributed to rising sales of multi-family housing. The share of single family residential sales rose to almost 64 per cent in 2010, reflecting both lower prices compared to 2008 and an increasing supply of homes available for sale.

Rutland, Westbank, Glenrosa and the Core area will be the most modestly priced locations. Black Mountain, Glenmore, Lake Country, North Glenmore, Peachland and Shannon Lake are the focus of home buyers seeking mid-priced single-detached homes. Southeast Kelowna, Dilworth Mountain, the Mission area and sections of North Glenmore, Lakeview Heights and West Kelowna will command the highest prices.

Condominiums and townhomes are expected to see stronger growth in demand this year and next as the price of detached homes edges higher. Multi-family sales have been slower to rebound than the detached home sector. Lower new and existing home

prices resulted in more competition from townhouses and single and semi-detached housing, ownership options previously beyond the reach of many local buyers. Demand for resort condominiums and second residences moderated from levels recorded during 2003-2008. Stronger competition from US resort markets and a growing number of new resort developments elsewhere in British Columbia also contributed to fewer condominium sales. Condominium and townhouse prices have stabilized and are expected to remain essentially flat through most of 2011.

Demand for New Homes Strengthens

Kelowna area housing starts are forecast to edge higher in 2011. Kelowna's new home construction sector continues to face strong price competition from a well-supplied existing home market. The inventory of new, completed and unoccupied apartment condominiums remains above the ten year average, dampening multi-family construction. Unusually severe and prolonged winter weather conditions contributed to fewer first quarter housing starts this year compared to the same three month period in 2010. Demand for new homes is forecast to pick up through the second half of 2011 and in 2012 as the British Columbia and local economies record stronger employment growth.

Moderately priced homes have remained the focus of detached home demand across all market areas. Lower lot prices and construction costs have enabled builders to attract buyers seeking homes in the $450,000 - $550,000 price range. The median price of new homes absorbed in the first quarter of 2011 was 15 per cent lower than the same three month period last year. Fewer buyers of resort-oriented homes and second residences have contributed to less demand for higher priced homes. Competition from the existing home market will continue to dampen upward pressure on new homes this year.

The Upper Mission, Lake Country, Black Mountain, Shannon Lake and Glenmore areas recorded the highest levels of detached home construction in 2010. New home buyers have benefited from an ample supply of building lots during the past year, a change from the shortages prior to 2008.

Kelowna's multi-family sector will record more condominium and attached home construction in 2011 than last year. However, gains will be modest. Condominium absorption has remained below the ten year average despite price reductions and builder incentives. Demand has shifted to local home buyers from local and out-of-region investors and those seeking resort homes and second residences. The inventory of new completed and unoccupied condominium units peaked at 419 units last spring and has since slowly declined to 338 units in March 2011.

The supply of apartment condominiums under construction has also come down. This is a positive signal for developers looking to bring new product to market. Stronger condominium construction will result from lower inventories in the overall condominium market in 2012.

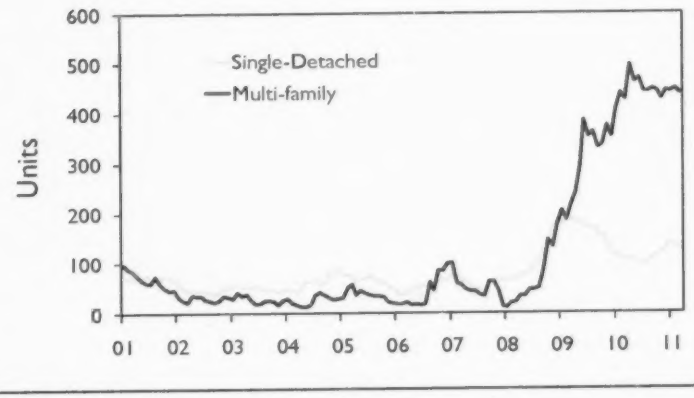
Builders of multi-family housing have focused on smaller, home owner attached housing projects, released to the market in phases and rental apartments rather larger than condominiums projects. As in the detached home sector, builders are targeting buyers seeking moderately priced rather than higher end homes.

Rental apartment construction accounted for the largest share of multi-family starts in 2010 despite higher vacancy rates during the past year. Rental apartment starts totaled 212 privately and publicly initiated units in 2010, the highest annual level since the early 2000s. Another

Figure 3

High Inventories Dampen Multi-family Construction

Inventory of New, Completed and Unoccupied Units



Source: CMHC

80 - 100 rental housing starts are forecast in 2011. Developers of multi-family rental housing are building in anticipation of lower vacancy rates through the longer term. With construction costs coming down, rental construction has become a more viable development opportunity than in recent years.

Vacancy Rate Remains at Higher Level in 2011

Competition from investor-owned condominiums and the addition of new buildings to the stock of apartment rental housing will keep vacancy rates above the ten year average.

At the same time, rising enrolment at both UBC Okanagan (University of British Columbia – Okanagan Campus) and Okanagan College and stronger employment growth will contribute to slightly increased demand for rental housing through the second half of 2011 and in 2012. Higher mortgage interest rates and home prices will begin to dampen the flow of renters to the home ownership market later this year.

Rents will remain essentially flat, increasing slightly this year in response to higher vacancy rates.

Kelowna Economy and Employment Support Demand for Housing

The Kelowna International Airport and UBC Okanagan and commercial construction sectors will remain key sources of employment growth in 2011. Both full time and part time employment moved higher last year, pushing the unemployment down to 7.7 per cent from 8.8 per cent in 2009. Employment moderated during the first quarter of 2011, but is expected to trend higher later this year and in 2012 as the BC and regional economies record stronger growth.

UBC Okanagan has become a major economic driver since its creation in 2005, bringing to Kelowna direct and spin-off employment, significant capital expenditure, industry partnerships, research dollars, profile and demand for housing. Enrolment has doubled in just five years, increasing to 7,004 students by 2010.

The Kelowna International Airport and associated business cluster has emerged as one of the area's largest employers. Kelowna's airport runway has now been extended to accept direct overseas flights. Further expansion to the terminal facilities will proceed through 2016. The Kelowna International Airport is now ranked Canada's tenth busiest airport with passenger volumes reaching record levels in 2010. Looking forward, improved accessibility will enhance the area's appeal to tourists, business and potential home buyers. Despite these developments, a higher Canadian dollar and rising fuel prices will temper employment growth in Kelowna's tourism sector.

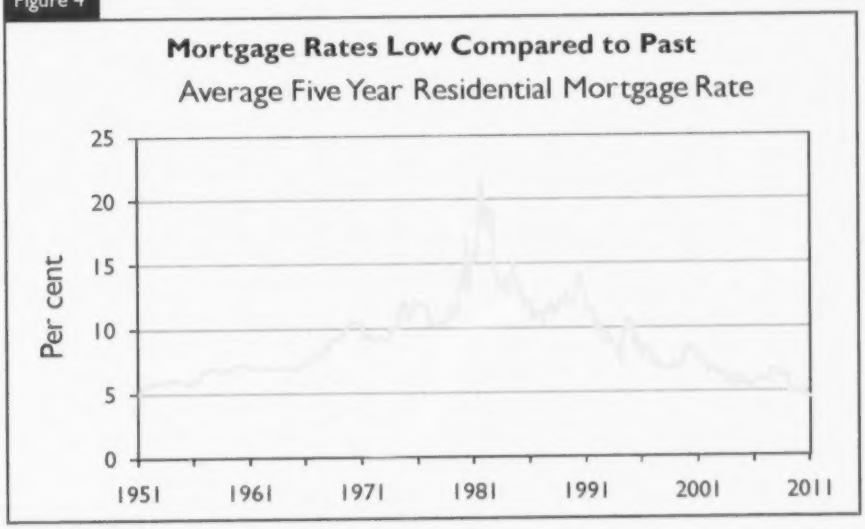
Other projects include the on-going expansion of Kelowna General Hospital to include health care services currently available only in Vancouver, an important consideration for retirees seeking to relocate to this region. At the same time, investment in infrastructure will have less impact on employment growth this year than last.

The incorporation of Westbank and other neighbourhoods located on the west side of Lake Okanagan along with residential and non residential construction on Westbank First Nations lands will continue to generate additional economic activity and employment growth.

Mortgage Rates

On April 12th, the Bank of Canada announced that it was leaving the Target for the Overnight Rate unchanged at 1.0 per cent. The last increase in the overnight rate

Figure 4



Source: Bank of Canada

occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. The Bank of Canada is expected to resume raising the overnight rate in the fourth quarter of 2011. Mortgage rates, particularly short term mortgage rates and variable mortgage rates, are expected to remain at historically low levels.

According to CMHC's base case scenario, posted mortgage rates will remain relatively flat in 2011 before increasing moderately in 2012. For 2011, the one-year posted mortgage rate is assumed to be in the 3.1 to 3.5 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.1 to 5.6 per cent range. For 2012, the one-year posted mortgage rate is assumed to be in the 3.4 to 4.3 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.2 to 6.3 per cent range.

Rates could, however, increase at a faster pace if the economy ends up recovering more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Forecast Summary
Kelowna CMA
Spring 2011

	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market							
MLS® Sales [1]	3,445	3,660	3,289	3,600	9.5	4,000	11.1
MLS® New Listings [1]	11,737	9,515	9,987	9,400	-5.9	10,500	11.7
MLS® Average Price ($) [2]	541,131	489,453	525,491	536,000	2.0	552,000	3.0
New Home Market							
Starts:							
Single-Detached	765	404	595	600	0.8	750	25.0
Multiples	1,492	253	362	425	17.4	575	35.3
Semi-Detached	98	62	68	75	10.3	75	0.0
Row/Townhouse	207	55	70	75	7.1	100	33.3
Apartments	1,187	136	224	300	33.9	300	0.0
Starts - Total	2,257	657	957	1,025	7.1	1,325	29.3
Average Price ($):							
Single-Detached	716,494	751,103	769,670	675,000	-12.3	700,000	3.7
Median Price ($):							
Single-Detached	599,900	582,645	610,000	575,000	-5.7	600,000	4.3
New Housing Price Index (% chg) (B.C.)	2.1	-6.5	2.6	0.8	-	2.0	-
Rental Market							
October Vacancy Rate (%)	0.3	3.0	3.5	5.5	2.0	4.5	-1.0
Two-bedroom Average Rent (October) ($)	967	897	898	910	-	920	-
One-bedroom Average Rent (October) ($)	803	737	740	730	-	745	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.23	-	3.76	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.45	-	5.94	-
Annual Employment Level	87,200	87,500	94,600	96,200	1.69	98,300	2.18
Employment Growth (%)	7.8	0.3	8.1	1.6	-	2.2	-
Unemployment rate (%)	5.0	8.8	7.7	8.0	-	7.5	-
Net Migration (B.C.)	65,691	61,118	42,793	60,800	42.1	62,000	**

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(1) The 2009 migration data is a forecast

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM), OMREB (Okanagan Mainline Real Estate Board).

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over.

(1) MLS® Sales and New Listings = Total Residential. (2) MLS® Average Sale Price = Single Family Residential.

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